

## Issue Title: Sustainability of the Dry Cleaner Environmental Remediation Fund (DERF)

Introduction: The purpose of this issue brief is to do the following:

1. Inform appropriate staff, managers, and administrators about the financial situation (current and projected) for the DERF program.
2. Use as a means to clearly articulate the issue with interested external parties such as the Governor's Dry Cleaner Council, Wisconsin Fabricare Institute, legislators, DOA, etc.
3. Seek input from those mentioned in 1. and 2. above to identify, evaluate and pursue viable solutions.

Background: The Dry Cleaner Environmental Remediation Fund (DERF) is projected to run deficits beginning this fiscal year. DERF receives approximately \$1 million per year from a 1.8% fee on gross dry cleaning receipts, paid by licensed dry cleaners in the state. DERF reimburses eligible persons up to \$500,000 for environmental remediation of dry cleaning solvent releases. The demand for reimbursement is currently outpacing cash flow into the fund. It is projected that nearly \$17 million will be needed over the next 8 years (2013) to meet cleanup demand. The statutorily imposed dry cleaning fee is authorized until 2032. The fee is projected to produce the needed revenues by approximately 2020. This projected 7 year difference in cash balance results in delayed reimbursement beyond what a small business can successfully carry in financing costs. The reality of this delay is already resulting in dry cleaners refusing to enter the DERF cleanup program for fear that they will not be reimbursed in a timely fashion. August 30, 2008 is the deadline for new applicants to enter the DERF program.

### Current and Projected Fiscal Status

Attached is **Table 1** which summarizes the actual demand on the program since it began in 1997. **Table 2** outlines the projected demand on the program.

In the last two years several rule and administrative changes have been to better meet the needs of dry cleaners, but have also resulted in a greater demand on DERF. They are:

- Allowing interim reimbursement of site investigation costs.
- Redefining eligible costs. This is intended to better serve the business needs of dry cleaners along with the environmental needs.

### Funding Options for Stabilizing DERF

Several options for stabilizing funding for DERF have been discussed.

1. Increase Dry Cleaner Licensing Fees. The affect of fee increases are summarized in **Table 3**. The Governor's Dry Cleaner Council recognizes that dry cleaning business is declining statewide and that some increase in fees will be necessary to maintain current revenues. To cover the entire shortfall faced by DERF, fees would need to be increased to 5%, a 270% increase over current fees. The dry cleaners do not want any increased fees, but may be willing to support a 0.5% increase to 2.3%.

2. State Revenue Bonds. The Governor's Dry Cleaner Council would like to draw on future revenue fees by bonding. The cost of revenue bonds is prohibitive to a program as small as DERF. In addition, the legislature is unlikely to support this alternative.
3. Sales tax based fee. Some states dedicate a portion of the sales tax collected from dry cleaners to cleanup of dry cleaner properties. It's unlikely that the Wisconsin legislature would support this alternative.
4. Use of PECFA money. The Governor's Dry Cleaner Council has discussed the possibility of working with the Petroleum Marketers and the State to borrow money from PECFA to cover the DERF shortfall. If a revolving loan could be made from PECFA, approximately \$6 to 8 million would be needed to cover the shortfall in DERF over the next 13 years. The DERF revenue stream would repay the PECFA loan within approximately 13 years. **Table 4** shows the effect of a revolving loan for addressing the DERF shortfall.

#### DNR Revenues to Support DERF

In an effort to meet the needs of the dry cleaners, including the previously mentioned rule and administrative changes, the Department's Remediation & Redevelopment (RR) Program has also provided more services than is funded by the dry cleaner fees. The RR program has 2 FTEs funded by DERF and Community Financial Assistance (CFA) has 1 FTE totaling 3 FTEs in DNR. The CFA position is dedicated 100% to dry cleaner issues. The RR program currently dedicates approximately 2.5 FTEs to dry cleaner issues.

The DNR has agreed to not charge fees for a number of specific items related to a site cleanup in recognition of DERF funding 2 FTEs. As the program has grown, some dry cleaners have asked for additional resources, plus as stated before, the changes made in the program have resulted in more DNR RR time being taken. The program plans to discuss with the Governor's Dry Cleaner Council the industry's reaction to being charged for items beyond the agreed upon core elements.

#### Next steps:

1. Meet with internal staff managers to understand issues and agree upon next steps.
2. Share with Governor's Dry Cleaner Council and Wisconsin Fabricare Institute at April meeting.
3. Consider biennial budget alternative.
4. Establish schedule for all of the above.

## **Table #1**

Dollars spent per Fiscal Year

FY '01	\$ 1,102,518.52
FY '02	\$ 592,530.03
FY '03	\$ 1,218,744.90
FY '04	\$ 507,982.67
FY '05	\$ 1,592,017.00
Total	\$ 5,013,793.12

standard spending authority each FY  
\$1,050,000

standard spending authority	\$ 1,050,000
surplus Dry Cleaner funds made available	<u>\$ 1,550,000</u>
spending authority for FY '06 only	\$ 2,600,000
Demand for funds so far FY'06	<u>\$ 1,986,612</u>
dollars left for this FY	<u>\$ 613,388.00</u>

**We will be spending almost 2 years  
of normal spending authority  
in 3/4 of one Fiscal Year this year**

**Table #2**  
**Current and Projected Sites - Dollars Needed / Revenue Available**

		D.C. license %	1.8		
		% increase			
		increase authority			
		projected authority	\$ 1,050,000		
		total projected payments	revenue available	\$ left	
	FY year'06	\$ 3,375,500	\$ 2,600,000	\$ (775,500)	FY year'06
	FY year'07	\$ 2,916,000	\$ 274,500	\$ (2,641,500)	FY year'07
	FY year'08	\$ 3,240,000	\$ (1,591,500)	\$ (4,831,500)	FY year'08
	FY year'09	\$ 2,490,000	\$ (3,781,500)	\$ (6,271,500)	FY year'09
	FY year'10	\$ 2,070,000	\$ (5,221,500)	\$ (7,291,500)	FY year'10
	FY year'11	\$ 1,350,000	\$ (6,241,500)	\$ (7,591,500)	FY year'11
	FY year'12	\$ 900,000	\$ (6,541,500)	\$ (7,441,500)	FY year'12
	FY year'13	\$ 450,000	\$ (6,391,500)	\$ (6,841,500)	FY year'13
	FY year'14	0	\$ (5,791,500)	\$ (5,791,500)	FY year'14
	FY year'15	0	\$ (4,741,500)	\$ (4,741,500)	FY year'15
	FY year'16	0	\$ (3,691,500)	\$ (3,691,500)	FY year'16
	FY year'17	0	\$ (2,641,500)	\$ (2,641,500)	FY year'17
	FY year'18	0	\$ (1,591,500)	\$ (1,591,500)	FY year'18
	FY year'19	0	\$ (541,500)	\$ (541,500)	FY year'19
	FY year'20	0	\$ 508,500	\$ 508,500	FY year'20
		\$ 16,791,500			

### Assumptions:

- DERF Revenue will continue at \$1,050,000 / year
- Estimated costs for all projected new projects
- For current unpaid eligible projects (55) we used their estimate for Site Investigation costs if available (if not we used \$50K site investigation costs) and then projected out the same \$30,000 for three years after that for Remediation costs.
- For current paid projects(26) we estimated \$40,000 for the next year payment and \$36,000 for the next year payment. So we estimated \$76,000 payment for remaining remedial actions. A very conservative number.

**Table #3**  
**Effect of License Fee Increases on DERF Revenue Shortfall**

		2.3		2.8		5		
		27.7		55.5		177.7		
		\$ 290,850		\$ 582,750		\$ 1,865,850		
		\$ 1,340,850		\$ 1,632,750		\$ 2,915,850		
	total projected payments	revenue available	\$ left	revenue available	\$ left	revenue available	\$ left	
FY year'06	\$ 3,375,500	\$ 2,600,000	\$ (775,500)	\$ 2,600,000	\$ (775,500)	\$ 2,600,000	\$ (775,500)	FY year'06
FY year'07	\$ 2,916,000	\$ 565,350	\$ (2,350,650)	\$ 857,250	\$ (2,058,750)	\$ 2,140,350	\$ (775,650)	FY year'07
FY year'08	\$ 3,240,000	\$ (1,009,800)	\$ (4,249,800)	\$ (426,000)	\$ (3,666,000)	\$ 2,140,200	\$ (1,099,800)	FY year'08
FY year'09	\$ 2,490,000	\$ (2,908,950)	\$ (5,398,950)	\$ (2,033,250)	\$ (4,523,250)	\$ 1,816,050	\$ (673,950)	FY year'09
FY year'10	\$ 2,070,000	\$ (4,058,100)	\$ (6,128,100)	\$ (2,890,500)	\$ (4,960,500)	\$ 2,241,900	\$ 171,900	FY year'10
FY year'11	\$ 1,350,000	\$ (4,787,250)	\$ (6,137,250)	\$ (3,327,750)	\$ (4,677,750)			FY year'11
FY year'12	\$ 900,000	\$ (4,796,400)	\$ (5,696,400)	\$ (3,045,000)	\$ (3,945,000)			FY year'12
FY year'13	\$ 450,000	\$ (4,355,550)	\$ (4,805,550)	\$ (2,312,250)	\$ (2,762,250)			FY year'13
FY year'14	0	\$ (3,464,700)	\$ (3,464,700)	\$ (1,129,500)	\$ (1,129,500)			FY year'14
FY year'15	0	\$ (2,123,850)	\$ (2,123,850)	\$ 503,250	\$ 503,250			FY year'15
FY year'16	0	\$ (783,000)	\$ (783,000)	\$ 2,136,000	\$ 2,136,000			FY year'16
FY year'17	0	\$ 557,850	\$ 557,850					FY year'17
FY year'18	0							FY year'18
FY year'19	0							FY year'19
FY year'20	0							FY year'20
	\$ 16,791,500							

### Assumptions:

- DERF Revenue will continue at \$1,050,000 / year
- Estimated costs for all projected new projects
- For current unpaid eligible projects (55) we used their estimate for Site Investigation costs if available  
 (if not we used \$50K site investigation costs) and then projected out the same \$30,000 for three years after that  
 for Remediation costs.
- For current paid projects(26) we estimated \$40,000 for the next year payment  
 and \$36,000 for the next year payment. So we estimated \$76,000 payment for remaining remedial actions.  
 A very conservative number.

**Table #4**  
**Effect of Revolving Loan Fund on DERF Shortfall**

				Dollars remaining in the Start Up Fund		
total projected payments		total \$ borrowed	Current debt (with paid back 1.05M/ yr)	remaining \$ in fund assuming a starting point of \$8.5M \$1.05M replaced every year	remaining \$ in fund assuming a starting point of \$8.5M est. \$1.34M replaced every year	
FY year'06	\$ 3,375,500	\$ (775,500.00)	\$ 775,500.00			FY '06
FY year'07	\$ 2,916,000	\$ 2,916,000.00	\$ 2,641,500.00	\$ 6,634,000.00	\$ 6,924,000.00	FY '07
FY year'08	\$ 3,240,000	\$ 3,240,000.00	\$ 4,831,500.00	\$ 4,444,000.00	\$ 5,024,000.00	FY '08
FY year'09	\$ 2,490,000	\$ 2,490,000.00	\$ 6,271,500.00	\$ 3,004,000.00	\$ 3,874,000.00	FY '09
FY year'10	\$ 2,070,000	\$ 2,070,000.00	\$ 7,291,500.00	\$ 1,984,000.00	\$ 3,144,000.00	FY '10
FY year'11	\$ 1,350,000	\$ 1,350,000.00	\$ 7,591,500.00	\$ 1,684,000.00	\$ 3,134,000.00	FY '11
FY year'12	\$ 900,000	\$ 900,000.00	\$ 7,441,500.00	\$ 1,834,000.00	\$ 3,574,000.00	FY '12
FY year'13	\$ 450,000	\$ 450,000.00	\$ 6,841,500.00	\$ 2,434,000.00	\$ 4,464,000.00	FY '13
FY year'14	0	\$ -	\$ 5,791,500.00	\$ 3,484,000.00	\$ 5,804,000.00	FY '14
FY year'15	0	\$ -	\$ 4,741,500.00	\$ 4,534,000.00	\$ 7,144,000.00	FY '15
FY year'16	0	\$ -	\$ 3,691,500.00	\$ 5,584,000.00	\$ 8,484,000.00	FY '16
FY year'17	0	\$ -	\$ 2,641,500.00	\$ 6,634,000.00	\$ 9,824,000.00	FY '17
FY year'18	0	\$ -	\$ 1,591,500.00	\$ 7,684,000.00		FY '18
FY year'19	0	\$ -	\$ 541,500.00	\$ 8,734,000.00		FY '19
FY year'20	0	\$ -				FY '20
	\$ 16,791,500					

**Assumptions:**

- Estimated costs for all projected new projects
- Estimated costs for all projected new projects
  - \$ 50,000 added 2 years after start-up
  - \$ 30,000 added 3years after start-up
  - \$ 30,000 added 4 years after start-up
  - \$ 30,000 added 5 years after start-up
  - \$140,000 total increase per new site assumed
- For current unpaid eligible projects (55) we used their estimate for Site Investigation costs if available (if not we used \$50K site investigation costs) and then projected out the same \$30,000 for three years for Remediation costs.
- For current paid projects(26) we estimated \$40,000 for the next year payment and \$36,000 for the next year payment. So we estimated \$76,000 payment for remaining remedial actions. A very conservative number.

**Dollars left in the Start Up Fund**

